Canadian Superior Oil Ltd. Annual Report 1974

Canadian Superior Oil Ltd.

Incorporated under the Laws of Canada

Head Office: Three Calgary Place,
355 Fourth Avenue S.W.,
Calgary, Alberta T2P 0J3

Directors

D. L. BOHANNAN, Vice-President, Operations, Canadian Superior Oil Ltd., Calgary, Alberta.
H. J. CAINE, Vice-President, Exploration, Canadian Superior Oil Ltd., Calgary, Alberta.
A. E. FELDMEYER, President, Canadian Superior Oil Ltd., Calgary, Alberta.
T. F. C. FROST, Director of Tribune Investment Trust Limited, London, England.
D. C. L. JONES, Vice-President, General Counsel and Secretary, Canadian Superior Oil Ltd., Calgary, Alberta.
H. B. KECK, President, The Superior Oil Company, Los Angeles, California, U.S.A.
W. M. KECK, Jr., Director and Member of the Executive Committee, The Superior Oil Company, Los Angeles, California, U.S.A.
J. L. NORMAN, Senior Vice-President, The Superior Oil Company, Houston, Texas, U.S.A.
J. W. PYLE, Vice-President, Finance and Administration, Canadian Superior Oil Ltd., Calgary, Alberta.
W. G. ROBINSON, President, Canadian Superior Exploration Limited, Vancouver, British Columbia.

Officers

J. L. NORMAN, Chairman of the Board
A. E. FELDMEYER, President
D. L. BOHANNAN, Vice-President, Operations
H. J. CAINE, Vice-President, Exploration
T. J. EMERSON, Vice-President, Contracts
D. C. L. JONES, Vice-President, Secretary and General Counsel
J. W. PYLE, Vice-President, Finance and Administration
R. C. SCHRADER, Vice-President, International Contracts
E. J. BETHELL, Treasurer
R. G. CHITTICK, Comptroller
R. C. MACDONALD, Assistant Secretary
D. J. PARKHILL, Assistant Secretary

Auditors

PRICE WATERHOUSE & CO.,
Calgary, Alberta

Transfer Agents

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

THE BANK OF NEW YORK
New York, New York 10015

Registrars

THE ROYAL TRUST COMPANY
Calgary, Alberta; Vancouver, British Columbia; Winnipeg, Manitoba; Toronto, Ontario; Montreal, Quebec; Saint John, New Brunswick; and Halifax, Nova Scotia.

FIRST NATIONAL CITY BANK
111 Wall Street
New York, New York 10015

Stock Exchange Listings

AMERICAN STOCK EXCHANGE (CDS)
PACIFIC STOCK EXCHANGE (CDS)
TORONTO STOCK EXCHANGE (CAS)

A detailed fill-in seismic program is programmed for the third quarter and drilling should commence late in the fourth quarter of this year or early in 1975.

In May, your company, participating with various groups in the federal lease sale Offshore Texas, was successful in placing high bids on 7 parcels. Three bids were subsequently rejected by the government as not meeting their standards of value. We were awarded leases on Blocks A-343 (6%), A-342 (6%), A-316 (1.5%), all in the High Island area, East Addition, South Extension and a lease on the N 1/2 Block 138 in the High Island Area (0.75%). The total cost to Canadian Superior was approximately $3.6 million.

Exploratory drilling during the past six months in Offshore Texas has resulted in hydrocarbon discoveries on each of Blocks A-555 (1.5%), A-323 (1.5%), 110 (1.5%), A-325 (0.75%) and A-337 (6%). The discovery on Block 110 (High Island Area) is now considered to be commercial and plans are in progress for installing production facilities; however, further drilling is being carried out to determine the commercial worth of the other blocks. Initial drilling is also underway on other tracts.

At the recent federal sale, on July 30, the groups with which your company participated were high bidders on four tracts, all in the High Island, South Addition area of Offshore Texas. Canadian Superior's interest in these tracts, comprising Blocks A-468, A-528, A-538 and A-551 varies from 10% to 30% for a total cost of approximately $1.1 million. Such tracts, however, are still subject to the decision for final award or rejection by the United States government.

In Offshore Louisiana, production from Blocks 296 and 306, Eugene Island Area, continues satisfactorily and development drilling is still continuing. Production facilities for Blocks 249 and 250 (South Marsh Island) are under construction.

Exploratory drilling on Block 243, acquired at the federal sale last March (Canadian Superior 10%), is presently in progress.

The Federal Power Commission in the United States recently authorized an increase in offshore gas prices to 42¢/Mcf, from a former high of 26¢/Mcf. Although still considered unrealistically low in view of high demand and other energy prices, this increase will improve our revenue picture in the Gulf Coast area.

In the United Kingdom sector of the North Sea, our exploratory well on Block 211-11, northeast of the Shetland Islands, is currently drilling below 10,000 feet.

A. E. Feldmeyer

August 2, 1974
Calgary, Alberta.

A. E. FELDMEYER
President

LITHOGRAPHED IN CANADA

CANADIAN SUPERIOR OIL LTD

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INTERIM REPORT

FOR SIX MONTHS ENDED JUNE 30, 1974

CANADIAN SUPERIOR OIL LTD. and Subsidiary Companies

Consolidated Statement of Income

	Six Months Ended June 30 1974	Six Months Ended June 30 1973	Three Months Ended June 30 1974	Three Months Ended June 30 1973
INCOME		Restated (1)		Restated (1)
Gross operating income, less royalties and mineral taxes	**$40,436,743**	$26,003,492	**$21,259,053**	$12,784,781
Interest, dividends and other income	**3,188,033**	1,009,829	**1,443,852**	371,101
	43,624,776	27,013,321	**22,702,905**	13,155,882
EXPENSES				
Operating, administrative and general expenses	**6,652,953**	6,007,734	**3,517,241**	2,937,136
Rents of undeveloped properties	**1,046,831**	1,127,028	**506,417**	549,570
Exploration - geological and geophysical	**3,369,013**	2,369,277	**1,620,950**	1,383,964
Intangible drilling expenditures	**4,974,598**	3,860,614	**1,763,621**	1,482,997
Depreciation	**3,137,308**	3,161,358	**1,648,871**	1,639,865
Depletion	**446,208**	300,199	**212,320**	145,357
Leases abandoned	**1,127,629**	1,395,341	**818,458**	764,304
	20,754,540	18,221,551	**10,087,878**	8,903,193
INCOME BEFORE INCOME TAXES	**22,870,236**	8,791,770	**12,615,027**	4,252,689
Provision for income taxes				
Current	**8,410,000**	4,240,937	**4,625,900**	2,250,937
Deferred	**(329,000)**	(954,000)	**(182,100)**	(519,000)
	8,081,000	3,286,937	**4,443,800**	1,731,937
NET INCOME FOR THE PERIOD	**$14,789,236**	$ 5,504,833	**$ 8,171,227**	$ 2,520,752
Average shares outstanding	**8,549,519**	8,526,176	**8,550,419**	8,532,393
	Per Share		**Per Share**	
Working capital provided from operations before drilling and exploration expenditures	**$ 3.22**	$ 1.83	**$ 1.64**	$ .87
Net income	**$ 1.73**	$ .65	**$ .96**	$ .30

(1) 1973 has been restated to provide full tax allocation. Gross operating income is restated net of mineral taxes which are analogous to royalties and which were previously included with operating expenses.

OPERATING RESULTS - Gross units	Six Months 1974	Six Months 1973	Three Months 1974	Three Months 1973
Crude oil and natural gas liquids production - barrels daily	**42,108**	39,033	**40,145**	36,481
Natural gas sales - million cubic feet daily	**254**	218	**218**	214
Sulphur production - long tons daily	**826**	832	**880**	793
Sulphur sales - long tons daily	**580**	712	**676**	891

Head Office: Three Calgary Place
355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3

Consolidated Statement of Changes in Financial Position

	Six Months Ended June 30 1974	Six Months Ended June 30 1973 Restated (1)	Three Months Ended June 30 1974	Three Months Ended June 30 1973 Restated (1)
SOURCE OF WORKING CAPITAL				
Net income	**$ 14,789,236**	$ 5,504,833	**$ 8,171,227**	$ 2,520,752
Add charges to income not requiring the use of working capital including depreciation, depletion, leases abandoned and deferred income taxes	**4,382,145**	3,902,898	**2,497,549**	2,030,526
	19,171,381	9,407,731	**10,668,776**	4,551,278
Add drilling and exploration expenditures	**8,343,611**	6,229,891	**3,384,571**	2,866,961
Working capital provided from operations before drilling and exploration expenditures	**27,514,992**	15,637,622	**14,053,347**	7,418,239
Capital stock issued for cash	**68,640**	532,948	**37,440**	164,060
Miscellaneous	**152,390**	211,341	**101,619**	167,801
	27,736,022	16,381,911	**14,192,406**	7,750,100
USE OF WORKING CAPITAL				
Capital expenditures				
Lease acquisition	**7,163,370**	1,638,411	**4,464,336**	933,907
Plant and equipment	**2,040,726**	3,306,119	**1,107,892**	1,914,668
Exploration - geological and geophysical	**3,369,013**	2,369,277	**1,620,950**	1,383,964
Intangible drilling costs	**4,974,598**	3,860,614	**1,763,621**	1,482,997
Total capital, drilling and exploration expenditures	**17,547,707**	11,174,421	**8,956,799**	5,715,536
Investment in other companies	**218,147**	199,680	**105,504**	99,531
Decrease in prepaid gas revenue	**84,640**	722,280	**43,656**	257,043
Miscellaneous	**156,397**	257,218	**(196,521)**	(49,541)
	18,006,891	12,353,599	**8,909,438**	6,022,569
Increase in Working Capital	**$ 9,729,131**	$ 4,028,312	**$ 5,282,968**	$ 1,727,531

	As at June 30 1974	As at June 30 1973
MAJOR BALANCE SHEET ITEMS		
Current assets	**$ 40,416,717**	$ 30,251,549
Current liabilities	**12,051,328**	9,248,834
Working capital	**28,365,389**	21,002,715
Properties, plant and equipment - net	**102,671,085**	94,439,195
Shareholders' equity	**126,494,507**	100,545,435

APPROVED ON BEHALF OF THE BOARD:

A. E. Feltmeyer DIRECTOR J. W. Pryle DIRECTOR

These statements include all normal adjustments and accruals, but are unaudited.

To The Shareholders:

FINANCIAL

Record revenues, cash flow and earnings during the six months ended June 30, 1974 should enable your company to accelerate its exploration program to an even more vigorous level. The crude oil price increases received last year and on April 1st this year, combined with more realistic gas prices, would provide the impetus to extend the search for new, high-cost energy reserves. However, there is uncertainty and a great concern within our industry as to the extent to which cash flow and earnings could be reduced if the Canadian Federal government re-introduces certain detrimental portions of the previously proposed and subsequently defeated budget when the new parliament convenes this fall. The following results, therefore, should be viewed with this uncertainty in mind.

Consolidated net income for the first six months of 1974 amounted to $14,789,236 ($1.73 per share) compared to $5,504,833 (65¢ per share) for the same period in 1973. Cash flow amounted to $27,514,992, or $3.22 per share, compared to $15,637,622, or $1.83 per share, for the same period a year ago. Gross revenue from all sources increased 61% to $43,624,776 and can be attributed primarily to higher product prices and in part to increased production.

Gross production of crude oil and natural gas liquids averaged 42,108 barrels daily during the six months ended June 30, 1974, an increase of approximately 8% over the same period a year ago. Gas production increased 17% to 254 million cubic feet daily. Sulphur sales, while down 19% in volume to an average of 580 tons daily, recorded an 88% increase in revenue due to higher prices as a result of increased demand.

DRILLING AND EXPLORATION

The company participated in the drilling of seventy-one exploratory wells during the first six months of 1974 of which thirty were productive of oil or gas and forty-one were abandoned. Thirty-nine development wells were drilled during the period, of which thirty-two were productive of oil or gas. In total, thirty-eight wells were drilled under farmout agreements at no cost to the company.

In Alberta, during the first six months of 1974, your company has been successful in extending its reserves of oil or gas either through expansion of established fields or discovery of new areas of production.

In the Turin region of southern Alberta, six wells have been drilled on a farmout at no cost to Canadian Superior. One of these wells has been classified as a commercial oil well while four others await further evaluation and, in addition, a wholly-owned well has penetrated over 100 feet of gross gas and oil zone. Further drilling is planned in the vicinity both by farmouts and by direct participation.

In the Niton area of central Alberta, your company purchased a drilling reservation and subsequently drilled a well which is presently undergoing completion testing. Based on the encouraging information obtained, another off-setting reservation was purchased and further drilling will be carried out in the third quarter. Canadian Superior's interest in this development is 50%.

In the Giroux area of west central Alberta, a Viking gas discovery, in which we have 50% interest, was made and further drilling is planned. Our interest in this development varies from 33-1/3% to 50%.

In central Alberta, shallow gas reserves have also been found in the Colony sand at Boyle, in the Basal Cretaceous at Martarch and in the Viking sand at Corbett Creek. Your company's interests in these prospects vary from 18.75% to 50% and follow-up drilling is planned. A petroleum and natural gas permit was purchased in the Boyle area.

In the Garrington field, approximately 55 miles northwest of Calgary, development drilling on lands in which Canadian Superior holds a 12-1/2% royalty interest, continued with three successful oilwells. Development of wholly-owned grant lands will begin in the third quarter.

Development of grant lands in the Twining North field resulted in one oilwell and, subsequent to the end of the reporting period, one additional oil completion. In addition to a 50% working interest, the company holds a 17-1/2% royalty interest in this project.

In the Harmattan East area, a farmout, in which your company holds a royalty interest and eventually a 25% working interest, has resulted in a discovery. Subsequently, the participants were successful in acquiring 1,600 acres of Crown land in the area.

In northern Canada, the company's seismic program in the Mackenzie Delta area has been completed and interpretation is now finalized.

INTERNATIONAL

A detailed marine seismic program has been completed and processing of the data is underway on the two recently acquired permits in offshore Abu Dhabi in which your company holds a 15% interest.

In the Sulu Sea area of the Philippines, a second test well has been abandoned at a depth of 15,095 feet. The drilling of this well earned Canadian Superior a 5% interest in a production-sharing contract covering 2,250 square miles.

In Indonesia, where your company farmed out its interest in the Arafura Sea production-sharing contract, the farmee carried out an onshore seismic survey. In addition, a 13,000-foot offshore wildcat well is scheduled for the third quarter of 1974 and will be drilled at no cost to Canadian Superior.

Two wells are scheduled in the 5,928 square mile offshore permit in the Gulf of Taranaki, New Zealand.

Highlights

	1974	1973 (Restated)
Gross Revenue	**$94,417,959**	$62,069,908
Working capital provided from operations — *before drilling and exploration expenditures*	**$56,599,756**	36,399,223
Per Share	**$6.62**	$4.27
Net Income	**$30,555,753**	$16,138,013
Per Share	**$3.57**	$1.89
Working Capital at Year End	**$38,478,876**	$18,636,258
Average Gross Daily Sales:		
Crude Oil (Bbls.)	**26,929**	28,390
Condensate (Bbls.)	**7,536**	7,755
Propane and Butane (Bbls.)	**5,892**	4,692
Total Oil and Gas Liquids	**40,357**	40,837
Residue Gas (Mcf)	**230,944**	221,365
Sulphur (Long Tons)	**639**	622
Net Acreage		
Canada	**8,676,622**	9,453,985
Outside Canada	**10,607,259**	7,765,674

Contents

Annual Meeting

The Annual and Special General Meeting of shareholders will be held on Wednesday, April 16, 1975, at 10:00 a.m. in the Lakeview Room, Calgary Inn, 320 Fourth Avenue S.W., Calgary, Alberta. A formal notice of this meeting, together with the proxy statement and information circular and form of proxy, is being mailed with this report.

Description of Business

Canadian Superior Oil Ltd. has been engaged in exploration and development of oil and gas properties in Canada since the 1940's, firstly as a wholly-owned subsidiary of The Superior Oil Company, and since 1950 as a public company in which The Superior Oil Company of Houston, Texas presently owns 53.3% of the outstanding common shares.

During recent years, the company's activities have expanded the search for petroleum and minerals into other countries of the world as well as Canada.

During 1974, 88% of the company's operating revenue was derived from the Province of Alberta in western Canada, 7% from the three other western provinces, and 5% from outside of Canada. Sales of crude oil and other liquids averaged 40,357 barrels daily. The company's gas sales averaged 203 million cubic feet per day from its interest in 43 gas plants located in the Province of Alberta. A further 28 million cubic feet of natural gas was produced and sold daily from the company's interest in properties in the Gulf Coast Area of the United States and the United Kingdom sector of the North Sea. Sulphur sales from certain plants in Alberta amounted to 639 tons daily during 1974.

President's Report

To The Shareholders:

Financial

The company's consolidated net income amounted to $30.6 million, or $3.57 per share in 1974, an increase of 89% over 1973 net income of $16.1 million, or $1.89 per share (after restatement to account for full deferred income tax).

Working capital provided from operations (cash flow, before drilling and exploration expenditures) amounted to $56.6 million, or $6.62 per share, compared to $36.4 million, or $4.27 per share, in 1973. The company's revenue from all sources totalled $94.4 million in 1974, an increase of 52% over the previous year. Working capital increased $19.8 million to $38.5 million at the year end.

Net income for the fourth quarter of 1974 amounted to $9.1 million compared to $6.9 million in the corresponding 1973 period.

Provision for current and deferred income taxes amounted to $19.9 million in 1974, an increase of 143% over the amounts provided in 1973 of $8.2 million. In addition, the company has paid to various levels of government in Canada a total of $25.5 million in royalties, mineral taxes, rentals and property taxes; an increase of $16.0 million over the previous year.

Capital expenditures for lease acquisitions, gas plants, production equipment, and other fixed assets totalled $18.3 million compared to $13.4 million in the prior year. Drilling and exploration expenditures amounted to $16.7 million compared to $13.7 million in 1973.

Production and Revenues

Sales of all liquids declined slightly to 40,357 barrels per day. Crude oil and condensate, which comprises 85% of the total volume of liquids, decreased 5% but was somewhat offset by a 26% increase in sales of propane and butane. Revenue from sales of crude oil and natural gas liquids increased 48% to $63.5 million after royalties and related mineral taxes. Total natural gas sales averaged 231 million cubic feet daily, an overall increase of approximately 4%. Sales in Canada remained nearly static at 203 million cubic feet daily while production from the United States Gulf Coast Area and the United Kingdom sector of the North Sea continued to expand to some 28 million cubic feet daily. Total revenue from consolidated gas sales climbed 41% to $20.8 million.

Sulphur production of 815 tons and sales of 639 tons per day remained at about the same level as in 1973. However, higher world prices increased revenues from $1.2 million in 1973 to $3.2 million in 1974.

Exploration and Drilling

Canadian Superior participated directly or indirectly in the drilling of 157 exploratory and development wells in Canada; 140 of which were concentrated within the Province of Alberta. In areas outside of Canada the company participated in 56 offshore wells in the Gulf Coast Area of the United States, four in the United Kingdom sector of the North Sea, two off Abu Dhabi in the Arabian Gulf, two in the Philippines, one in Indonesia, and one in Tunisia. In total, 50 wells were productive of oil, 79 found gas, and 94 were abandoned. Eighty-four of the wells were drilled under farmout agreements at no cost to the company.

It will be noted that the major drilling activities outside of Canada continued to be directed to the offshore Gulf Coast Area of Texas and Louisiana. In addition to the continuous drilling program on acreage presently held, varying interests in five additional blocks were acquired during 1974 in the Texas Area and three in the Louisiana Area at Federal lease sales at a net cost of $7.0 million. In February, 1975, the company acquired additional interests in 10 tracts at a cost of $4.9 million in the South Texas Outer Continental Shelf Area. Evaluation of available blocks in offshore Louisiana for a Federal sale scheduled for May, 1975 is in progress.

In September of 1974, a production-sharing contract was awarded to Canadian Superior for exploration in the Bay of Bengal, offshore Bangladesh, and we are currently engaged in a regional geophysical program in the area. We believe this vast delta holds enticing possibilities for hydrocarbon discovery but the location, weather and sea conditions will require extraordinary expenses and innovative procedures to bring about a successful operation.

Employees

The company's staff has remained relatively constant at 413 employees and the Board commends them for their valuable contributions to our operations.

Outlook

The past year has been an unsettling one for petroleum companies; both in Canada, and in other producing countries around the world. Rapidly escalating world prices, inflationary effects on operating costs, changing patterns of government involvement, and a general lack of government policy definition here in Canada have made long term planning next to impossible. Despite the financial improvements reflected during 1974, it must be realized that without stable and responsible government guidelines for our Canadian industry, the incentive to increase vital exploration in Canada will be severely diminished. The dramatic increase in royalties and taxes and the fixing of petroleum product prices below their true commodity values have also served to dissipate the efforts of industry. The full impact of the present Federal stance concerning the non-deductibility of royalties and other adverse budget proposals for income tax purposes was not felt in 1974. In 1975, the regulations will pertain for the full year and the back-log of earned depletion credits will have been used up. These factors will, under existing proposals, result in increased tax burdens which will preclude the generation of sufficient funds within industry to assure our future energy needs.

ON BEHALF OF THE BOARD,

A. E. Feldmeyer

February 28, 1975. President

Exploration and Development

Canada

The economic, political, royalty and tax uncertainties which pervaded our industry throughout 1974 led to changes in emphasis in the areas of the company's exploration and development programs.

The policies being pursued by the governments of Saskatchewan and British Columbia are such as to inhibit further exploration in those provinces. As discussed elsewhere in this Report, modifications to Alberta's tax and royalty regulations, and other improved incentives, have focused our Canadian exploration in that province. Discoveries of natural gas and crude oil by the company in Alberta showed an encouraging improvement for the year.

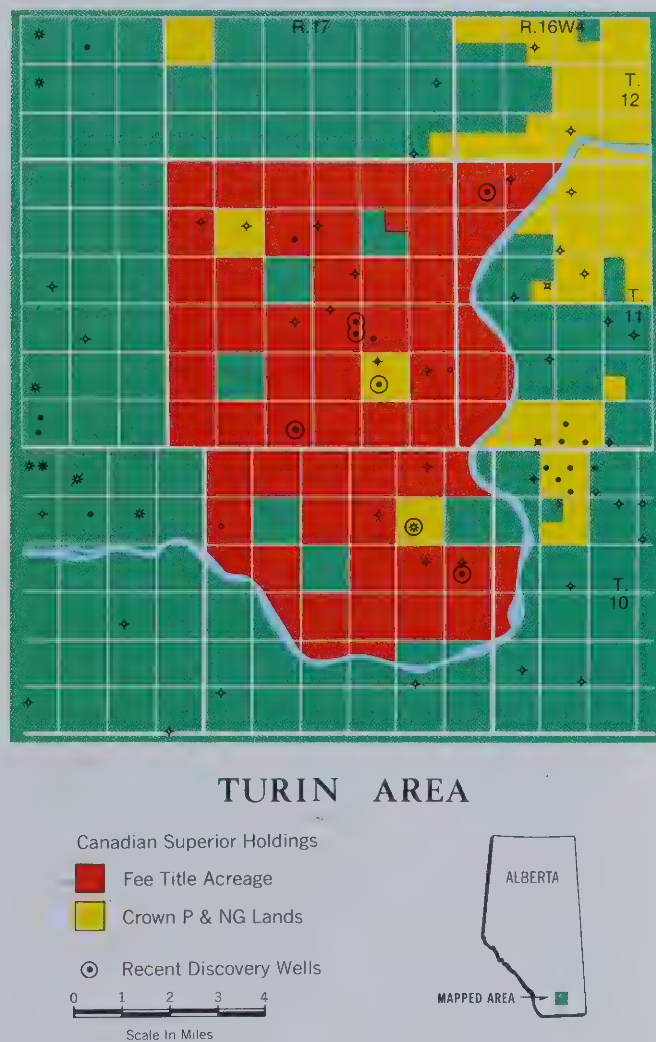
Exploration in northern and frontier areas of Canada saw a reduction in 1974; partly due to completion of existing programs and partly due to the lack of definitive Federal regulations dealing with royalty and ecological policies.

In the offshore East Coast of Canada, your company has made substantial reductions of acreage in areas where seismic investigation has not warranted further exploration. The permits held in the Gulf of St. Lawrence were dropped and our holdings on the Nova Scotia Shelf were reduced from 455,584 to 26,841 net acres.

Your company participated in the drilling of 86 exploratory wells in Canada in 1974 of which 29 resulted in discovery of natural gas, 11 resulted in the discovery of oil, and 46 were abandoned. Seventy-one development wells resulted in 31 oil wells and 30 gas wells, with 10 abandonments.

Turin

The company was active in the Turin Area of southern Alberta during 1974 and 10 wells in which we participated, resulted in six oil wells, one gas well and three abandonments. Further drilling is planned for 1975.



TURIN AREA

Niton

A test well was completed as an oil producer on a drilling reservation purchased by the company in the

Niton Area of west central Alberta. Two unsuccessful step-out wells have been drilled and follow-up drilling is dependent upon studies now being conducted.

Garrington

Development drilling in the Garrington Area of central Alberta during 1974 resulted in completion of six oil wells and one gas well in which we hold varying royalty interests. One wholly-owned oil well was completed in October 1974.

Twining

Development in the Twining North Field resulted in completion of three oil wells in which we hold both a 50% working interest as well as a 17½% royalty interest.

Wimborne

Two shallow gas wells, in which a royalty interest was retained, were completed in the Wimborne Area of central Alberta.

Majorville

Two gas discoveries have been completed in the Majorville Area of southern Alberta. Canadian Superior has a 50% interest in one, 87½% interest in the other.

A promising trend has developed, and further activity is anticipated.

Algar

Gas was discovered in 1973 in the Algar Field, in the shallow gas area of northeast Alberta. There are six completed gas wells in the field, in which Canadian Superior has a 50% interest. Four of these wells were drilled at no cost to Canadian Superior. Two natural gas licences will be validated by the drilling of two wells in February 1975; one of which has been successfully completed, and the other is currently drilling.

Mackenzie Delta

The company's seismic program in the Mackenzie Delta Region has been completed. In total, about 3,520 miles of seismic records were either shot or purchased and the interpretation of this material has now been finalized. This information will provide your company with data to realistically evaluate future exploration plays.

Canadian Arctic

On Melville Island, your company farmed out 50% of its interest in deep horizons (earned by participating in a deep test at Drake Point) to Pan Arctic, who will earn their interest by completing an 11,500 foot test well which is now drilling.

Further work on our interests in the Beaufort Sea in the Arctic has been curtailed pending resolution of government policy on drilling. Arrangements have been finalized to defer the work obligation to the Federal Government by advancing funds to a drilling contractor who is developing equipment to operate in the northern waters and who expects to drill an initial well for another operator in the Beaufort Sea during 1976.

Other Areas

A gas discovery has been made on wholly-owned acreage in the Peace Grove prospect in the Peace River Area of Alberta. Gas discoveries in shallow Cretaceous sands have also been made in the Lindberg and Two Hills Areas of east central Alberta where four gas wells were drilled at no cost to Canadian Superior. Another gas well has been completed in the Youngstown Area of southern Alberta.

Canadian Superior has a 35% interest in a deep test well being drilled at Muskeg River in the Deep Basin Area of western Alberta.

CANADIAN SUPERIOR'S INTERNATIONAL ACTIVITIES

International Areas

In each of the past several years, Canadian Superior has continued to expand its participation in the more geologically promising basins of the world. 1974 was no exception, with expenditures outside of Canada for exploration, drilling, lease and concession costs almost double those of the prior years. This trend will continue during 1975.

United Arab Emirates - Arabian Gulf

A second step-out well to the Arzanah oil discovery in offshore Abu Dhabi is currently drilling and if successful will prove up a productive trend 6½ miles in length. Canadian Superior has a 10% working interest in this project. Seismic work has been completed on adjacent blocks where your company holds a 15% interest.

In the Sheikhdom of Umm Al-Qaiwain, where Canadian Superior holds a 25% interest in the offshore area, a

ARABIAN GULF

Scale In Miles

Canadian Superior Land Holdings

recently completed marine seismic survey is now being interpreted. A well may be spudded later in 1975 to test any promising geophysical structures.

Canadian Superior has exercised an option to participate in the drilling of a well in the territorial waters of the Sheikhdom of Ras Al-Khaima, which is expected to commence by mid-1975. Upon completion of the terms of the agreement, your company will earn an approximate 6% working interest.

Bangladesh

Canadian Superior was one of six successful applicants to be awarded a production-sharing contract by the Bangladesh government covering 4,667 square miles in the Bay of Bengal.

The contract area is located offshore Bangladesh in the largest delta complex in the world and, although relatively little exploration work has been carried out in the area, the prospects of hydrocarbon discovery are believed to be attractive. A marine seismic operation is now underway in the contract area and, based on the results of this survey, a test well is planned within the next year.

GUATEMALA – BELIZE

0 20 40 60
Scale in Miles

Canadian Superior Land Holdings

Guatemala and Belize

In the Gulf of Honduras, offshore Guatemala, two wells are scheduled to be drilled in 1975. Canadian Superior will earn a 12½% interest in the acreage in return for assuming 25% of the costs. An option to earn a similar interest has been acquired on a contiguous permit in neighbouring Belize, where a marine seismic survey is currently in progress.

Bolivia

A 25% interest has been acquired in two production-sharing contracts covering approximately 4.9 million acres in the Tarija Block, east of the Andes near the Argentinian border and the La Paz-Oruro Block southwest of the city of La Paz. Exploration data is currently being reprocessed and interpreted on the Tarija Block and a photogeologic study is in progress on the La Paz-Oruro Block prior to initiation of surface geologic investigations and seismic operations.

Australia

Canadian Superior relinquished its interest in the Carnarvon Basin offshore Western Australia. The first term of our Bonaparte Gulf permits (two offshore and one onshore) expires in 1975. The company has applied for renewal of approximately 1,360 square miles of one offshore permit but anticipates relinquishing the other two permits in 1975. The area we have applied to retain constitutes about 17% of presently held acreage. The only exploration activity in Australia during 1974 consisted of approximately 300 miles of marine seismic in the Bonaparte Gulf.

Papua New Guinea

During 1974, the first six-year term of our offshore permits expired and renewal of 36.5% of this acreage was granted by the government. Total obligations for the five-year renewal period calls for the drilling of four wells and a minimum expenditure of $10 million.

A deep Mesozoic test in the Gulf of Papua was spudded in December, 1974, and after encountering mechanical difficulties, was re-spudded in January and is currently drilling below 12,000 feet.

At present, negotiations are underway to farmout a portion of our interest in the Gulf of Papua permits to a major oil company. An area surrounding our previous gas condensate discoveries will be excluded from the farmout area.

New Zealand

The Taranaki Basin permits, for which Canadian Superior had negotiated a farmin to earn a 40% interest by drilling two wells, would have expired on September 30, 1975. Due to delays in the availability of a drilling vessel, some doubt arose as to whether the two-well program could be completed prior to the expiry date. The New Zealand Government made an offer to extend the permits for two years in exchange for governmental working interest control without compensation and higher royalty payments. At the same time, the government gave notice of amendments to the existing Petroleum Act which could further adversely affect petroleum operations in that country. We therefore decided to withdraw from the farmin agreement.

Indonesia

During the year, a well was drilled on our Arafura Sea concession and was abandoned at 12,531 feet. In addition, 150 miles of onshore seismic was shot. Under a farmout arrangement, these operations were carried out at no cost to Canadian Superior.

Philippines

During 1974 your company participated in the drilling of two wells in the Sulu Sea Area of the Philippines. The first well was abandoned at 13,456 feet after encountering minor oil and gas shows. The second well was drilled to a total depth of 15,098 feet and was also abandoned after encountering minor gas shows. Negotiations are presently underway to farmout our interests in this area to a major oil company.

NORTH SEA AREA

North Sea

Exploratory drilling in the North Sea during the past year saw a deep test drilled on each of Blocks 211/11 and 210/30. Both wells failed to find commercial hydrocarbons.

During the last quarter of 1974, your company entered into an agreement whereby we would earn a 5% interest in Blocks 29/6, 29/27 and 21/2 by incurring 10% of expenditures on two exploratory wells. A test well is currently drilling on Block 21/2 which lies just east of an oil discovery in Block 21/1 and about 15 miles northwest of the Forties Field.

GULF OF MEXICO

There was no activity in the Netherlands sector during 1974. We have entered into a farmout agreement for Block K-12, in which Canadian Superior holds a 3.3% interest, and anticipate an exploratory test to be drilled during the second quarter of 1975.

Expansion of production facilities in the Hewett and Leman Fields continued during 1974 and these fields are now nearing peak production rates. The company's share of revenue from these fields amounted to $1.1 million, an increase of 21% over 1973.

United States - Gulf of Mexico

To date, your company has participated in drilling 28 exploratory tests in the Texas portion of the Gulf of Mexico. Thirteen have encountered hydrocarbon-bearing sands, and at least three are indicated commercial fields. Platform construction and development drilling is now underway. The blocks presently considered economically productive are A-323 (1.5%), 110 (1.5%), and A-337 and 343 (6%). Further drilling will be required to establish commercial prospects in the other areas.

During the year, various interests in five additional blocks were acquired at Federal lease sales, including A-528 (30%), A-342 and A-343 (6%), N-½ 138 (0.75%), and A-316 (1.5%) at a cost of $4.3 million.

On February 4, 1975, the United States Department of Interior held a Federal lease sale in the South Texas Outer Continental Shelf Area. Canadian Superior, participating in three separate groups, acquired interests varying from 15% to 30% in 10 tracts at a cost of $4.9 million.

Production revenue from Brazos Block A-1 (5%), amounted to $355,000 and will be substantially higher next year due to increased gas prices.

In the Eugene Island Area of offshore Louisiana, development drilling continued on Blocks 296 and 306. Block 296 is now fully developed with 44 wells capable of production. Block 306 had 25 wells capable of production at the end of 1974 and should be fully developed during 1975. Combined revenue from these two blocks amounted to $3 million for our 5% and 5.6% interests respectively. The gas discoveries on Blocks 249 and 250 in South Marsh Island Area (7%), though modest in size, should also be contributing to production in the last quarter of 1975.

During 1974, your company was successful in acquiring interests in three blocks at Federal lease sales in offshore Louisiana at a cost of $2.7 million. They comprise Block 317 (5.6%) which lies adjacent to the Block 306 Field, and Blocks 243 and 244 (10%) in South Marsh Island Area.

A commercial gas field has been discovered on Block 243 and four wells have been completed. A production platform is on order and further development drilling is planned.

A third exploratory test was drilled on South Marsh Island Block 122 (11.1%) but was abandoned.

A Federal lease sale is scheduled for offshore Louisiana in May, 1975 and evaluation of available blocks is in progress.

Minerals Exploration

In 1974, Canadian Superior continued its search for mineral deposits in Canada, United States, Ireland, Australia and the Philippine Islands. In Canada and the United States, work was carried out on 21 properties acquired by staking and on 14 properties held under option agreements. Nine properties were tested with percussion or diamond drill holes. The company has a one-sixth interest in a property in the Yukon on which drill holes have outlined a copper orebody.

The company has a 23¾% interest in the development of a gold-silver mine in Idaho. Work has commenced on an open-pit operation and a 1,400 ton-a-day mill is scheduled to start production in 1976.

In Ireland, an 18⅝% interest is held in a number of prospecting concessions on which several intriguing geological targets will be tested with drill holes in 1975.

In Australia, the company is exploring for uranium in the Northern Territory and Western Australia, and for nickel in Western Australia. A new exploration office has been opened at Manila in the Philippine Islands.

Canadian Superior's share of world-wide minerals exploration expenditures during 1974 totalled $1.3 million.

Production and Sales

Crude Oil and Condensate

Production of crude oil and condensate averaged 34,465 gross barrels per day during 1974, a slight decrease from the previous year. The Federal/Provincial price accord reached in early 1974 increased the producer price of crude oil by $2.70 per barrel effective April 1, 1974 to approximately $6.50 per barrel. Condensate prices increased correspondingly.

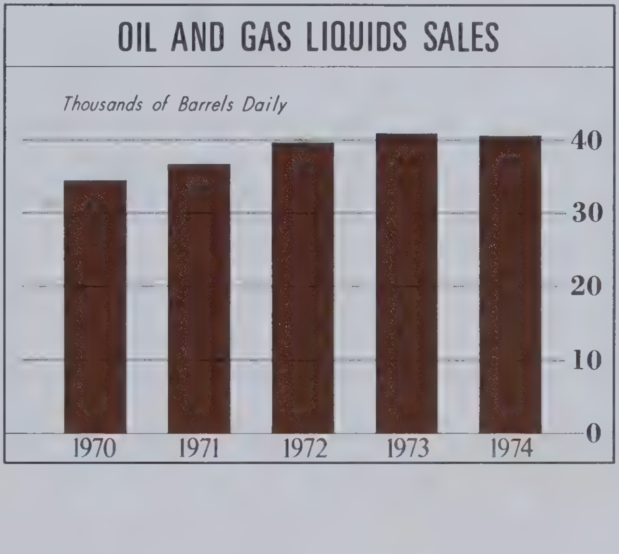
At the same time, the Alberta Government raised the royalty on crude oil with the result that 65% of the price increase was paid to the provincial government. In Saskatchewan the government imposed a mineral income tax which effectively took the entire price increase.

The Federal Government tax that was initiated in late 1973 on crude oil and condensate exported to the United States, was continued throughout 1974. This export tax constitutes the difference between the fixed Canadian price of $6.50 per barrel and the prevailing international price. This amounted to $5.20 per barrel throughout most of 1974 and will be raised to $5.50 per barrel for light crude oil in March 1975. The proceeds from this tax on the export of western-produced oil are used to subsidize the imports of higher priced crude oil into Eastern Canada.

In November, the Federal Government stated that crude oil exports to the United States would be reduced beginning in 1975 and ended completely by 1982. Exports will be limited to 800,000 barrels per day for the first half of 1975 and to 650,000 barrels per day for the latter half of the year.

Liquified Petroleum Gases

Production of LPG's increased 26% in 1974 to an average of 5,892 barrels daily, and prices have continued to improve; a direct result of increased demand and substantial price increases for competitive fuels. Revenues from this source increased 163% to $9.4 million in 1974. Propane and butane will continue to command a premium over other fuels because of their clean-burning qualities and versatile transportation and distribution capabilities. The increasing use of LPG's in refining, petrochemical and synthetic natural gas applications should continue to exert upward pressure on prices.



Hardisty underground LPG storage facilities, in which your company has a 50% interest, continues to assist in marketing propane and butane by providing storage for product required during the peak winter season when demand exceeds supply. In addition, it has facilities to convert field grade butane into iso and normal butane which are continuing to command premium prices.

Natural Gas

The company's natural gas sales averaged 231 million cubic feet daily in 1974, an increase of 4% over the prior year.

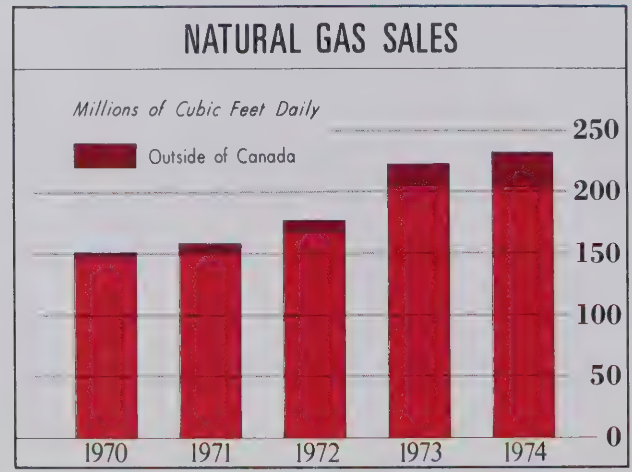
During 1974, direct negotiation with the purchasers of the company's Canadian gas resulted in redetermination of sales prices in July and November. Significant price increases were achieved which had the effect of improving income from this source by 41% to $20.8 million. The benefit of these increases will add to revenue for the full year of 1975. Prices for about 90% of our gas sales will again be eligible for redetermination during 1975.

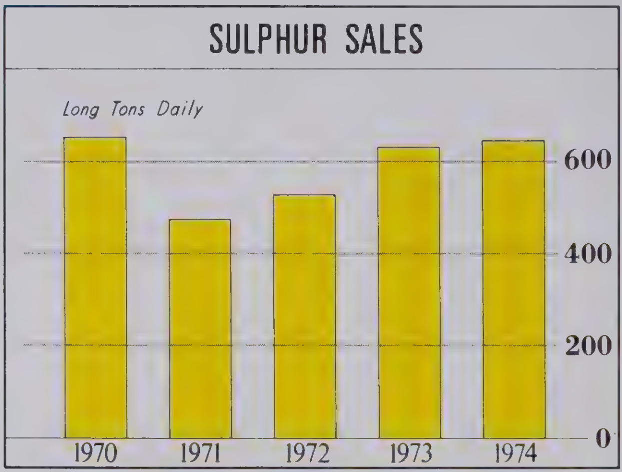
In September, the Federal Government announced an increase in the border price of natural gas to a minimum of $1.00 per thousand cubic feet for gas exported to the United States after January 1, 1975. Although the government indicated that the increased revenue resulting from this action should be returned to the gas producers, the exact effect on the company's future revenue is unknown at this time. It is estimated that about 35% of the company's gas sales are exported to the United States.

Although significant increases in natural gas prices have occurred in recent years, the price today is still generally far below other fuels that compete with natural gas in its end-use markets. This under-priced situation continues to provide an unrealistically high demand for gas and encourages extravagant use of this premium fuel.

Sulphur

The improvement in sulphur prices which began in 1973 became more pronounced during 1974, primarily because of increased demand by the fertilizer industry.





Demand in offshore markets still exceeds the industry's capability to move sulphur to those markets due to transportation and handling facility limitations. Domestically, the supply of liquid sulphur is still limited to the availability of rail-connected liquid production and consideration is currently being given to trucking of liquid sulphur to rail-head and/or the melting of sulphur from block storage to alleviate an anticipated shortage of liquid sulphur.

Your company has entered into a joint venture for the purpose of upgrading sulphur produced in Alberta into a readily useable, water degradable sulphur fertilizer product known as "Agri-Sul". The Agri-Sul Fertilizer Plant will be constructed adjacent to the Harmattan Leduc Sulphur Plant and will be initially capable of producing 50,000 tons of granular sulphur fertilizer per year. Canadian Superior's interest in this plant is 33%.

Sulphur sales during 1974 averaged 639 tons per day, or 78% of production, and provided income of $3.2 million compared to $1.2 million in the previous year.

Transportation

Canadian Superior maintains a fleet of leased tank cars for LPG and sulphur deliveries. At year end, 280 cars were in LPG service and 108 were in sulphur service with 19 additional sulphur cars on order.

Oil and Gas Acreage Holdings

	Gross		Net	
CANADA				
Producing leases		744,443		406,792
Exploratory acreage:				
Western Canada				
Leases	2,806,784		1,932,191	
Reservations and permits	1,863,296		1,077,362	
Fee title acreage	1,309,638	5,979,718	1,309,282	4,318,835
Yukon and Northwest Territories				
Leases	139,518		35,064	
Permits	1,329,234	1,468,752	553,000	588,064
Beaufort Sea		4,134,266		1,818,967
Mackenzie Delta — onshore		492,343		246,172
Arctic Islands				
Leases	75,303		1,883	
Permits	1,053,925	1,129,228	484,137	486,020
East Coast				
Nova Scotia shelf	1,073,610		26,841	
Labrador shelf	2,471,595		247,159	
Grand Banks	1,463,756	5,008,961	537,772	811,772
Total Canada		18,957,711		8,676,622
INTERNATIONAL				
Producing leases:				
United Kingdom — North Sea		180,927		6,030
U.S.A. — Gulf Coast Area		20,760		1,138
Exploratory acreage:				
Bangladesh		2,986,880		2,986,880
Kenya		6,669,000		2,223,000
Indonesia — Arafura Sea		39,896,862		1,994,843
Bolivia		4,906,559		1,226,640
Australia		5,082,880		660,774
Papua New Guinea		3,936,000		590,000
Tunisia		2,837,430		425,575
United Arab Emirates:				
Abu Dhabi	1,280,633		162,906	
Umm Al-Qaiwain	296,400	1,577,033	74,100	237,006
Italy		250,551		101,089
Malta		426,218		90,571
United Kingdom — North Sea		488,502		30,472
Sicily		78,279		19,570
Netherlands		205,537		6,850
U.S.A. — Gulf Coast Area		130,831		6,821
Total International		69,674,249		10,607,259
TOTAL ACREAGE		88,631,960		19,283,881

1974 Sales by Major Fields and Areas

CANADA	Oil (Bbls.)	Condensate (Bbls.)	L.P.G. (Bbls.)	Gas (Mcf)	Sulphur (L. Tons)	Operating Revenue
Alberta						
Harmattan	2,622,463	1,138,656	865,578	16,565,004	51,956	$26,754,762
Crossfield-Carstairs	43,564	332,232	286,871	20,605,584	142,233	10,638,948
Innisfail	1,381,872	54,449	—	1,143,747	10,442	7,523,845
Ferrier	578,279	278,388	528,493	10,327,353	—	7,370,595
Pembina	1,103,483	2,923	—	752,649	—	4,610,516
Kaybob	—	486,086	219,829	2,077,910	24,790	3,568,885
Clive	315,780	—	—	280,648	—	1,410,500
Lone Pine Creek	—	100,258	—	4,554,938	11	1,405,790
Olds	199,798	15,273	22,317	811,917	—	1,387,308
Swan Hills	287,033	—	—	—	—	1,112,993
Garrington	43,251	52,319	42,155	1,698,374	—	1,067,144
Cherhill	290,644	—	—	—	—	984,558
Minnehik Buck Lake	—	31,922	—	2,202,442	—	829,637
Sylvan Lake	24,311	17,338	30,077	960,726	—	656,915
Gilby	20,864	16,572	24,600	1,277,460	—	621,192
Nevis	33,531	17,953	33,726	1,037,509	2,439	611,927
Other	999,280	92,497	34,829	6,723,723	1,332	6,391,363
	7,944,153	2,636,866	2,088,475	71,019,984	233,203	76,946,878
Saskatchewan						
Steelman	452,428	—	—	195,148	—	1,374,586
Weyburn	387,825	—	—	—	—	1,055,745
Midale	275,816	—	—	—	—	774,892
Other	163,950	—	—	332,007	—	565,786
	1,280,019	—	—	527,155	—	3,771,009
British Columbia						
Inga	373,067	—	—	670,033	—	694,659
Other	107,519	—	—	2,034,010	—	1,181,454
	480,586	—	—	2,704,043	—	1,876,113
Manitoba	124,237	—	—	—	—	473,636
CANADA	9,828,995	2,636,866	2,088,475	74,251,182	233,203	83,067,636
INTERNATIONAL						
United Kingdom	—	9,917	—	4,098,797	—	1,107,656
United States	—	103,902	61,932	5,944,387	—	3,303,976
TOTAL	9,828,995	2,750,685	2,150,407	84,294,366	233,203	$87,479,268

Note: The company has, in the past, reported production statistics on a net unit basis; i.e., after deduction of royalties. With the significant changes during the year in methods of determining the provincial governments' share of production; management has concluded that "gross" represents a more meaningful reflection of operating results from the companies' properties. Operating revenue is expressed as "net" after payment of royalties and related mineral taxes.

Financial

Gross operating income from sales of petroleum products amounted to $87.5 million, an increase of $28.2 million over 1973. Other income made up of interest, dividends and marketing revenue rose to $6.9 million to bring total revenue from all sources to a record high of $94.4 million. Cash flow, before drilling and exploration expenditures, amounted to $56.6 million, or $6.62 per share, compared to $36.4 million, or $4.27 per share in the prior year. Net income for the year increased to $30.6 million, or $3.57 per share, compared to $16.1 million, or $1.89 per share, in 1973.

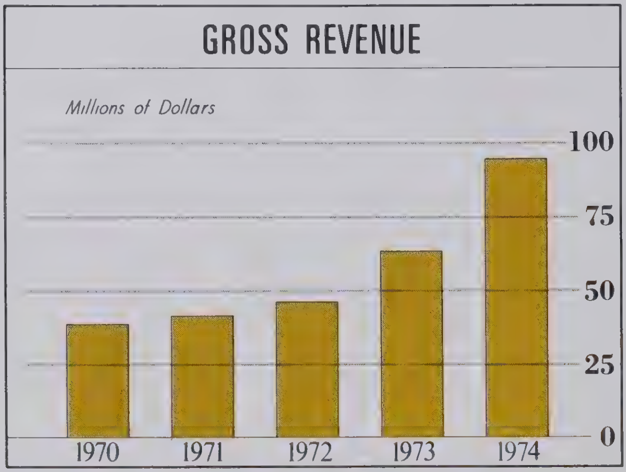
Higher operating revenues during 1974 resulted from greatly improved prices for all products. The $4.1 million increase in other income was attributable to higher interest earned on short term investments and improved profits on products purchased for resale.

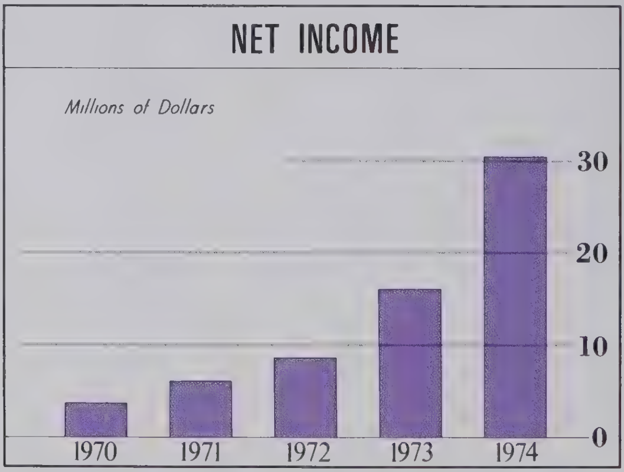
Revenue from oil and gas operations in the Gulf Coast Area of the United States continued its upward trend during 1974 due to higher prices and continued development. In the United Kingdom sector of the North Sea, income growth was modest, as were gas volume increases. Combined gross operating revenue from both these areas amounted to $4.4 million this year, compared with $1.8 million in 1973.

World-wide expenditures on properties, plant and equipment, drilling and exploration increased by $7.8 million to $34.9 million. Expenditures of $15.2 million within Canada did not vary significantly from 1973; however, foreign expenditures increased $7.4 million to $19.8 million and accounted for 57% of the total expenditures. The offshore Gulf of Mexico Area of the United States represented our main interest outside of Canada, and $9.6 million was spent to acquire and develop leases in this area. Other significant expenditures in international areas were made to acquire exploration rights in Bangladesh, in the United Arab Emirates, in the Arabian Gulf, and to drill in the United Kingdom sector of the North Sea and in the Philippines. Expenditures incurred outside of Canada are summarized in the accompanying table.

In 1974, the Canadian Provincial Securities Administrators concluded that petroleum companies whose securities are publicly traded in Canada must follow the allocation method of accounting for income taxes. The company, along with the majority of petroleum companies in Canada, had followed the practice of providing for deferred taxes only for timing differences related to accelerated tax write-offs of tangible assets. In response to the ruling, the company adopted the full tax allocation basis of accounting for income taxes relative to other timing differences (mainly lease acquisition costs and foreign expenditures). The retroactive adjustment resulted in a charge to retained earnings at the beginning of 1974 of $12,500,000. 1973 results in this report have been restated to provide comparative results based on full tax allocation. Please refer to Note 2 of the Notes to Consolidated Financial Statements for further details.

In 1973, the Alberta Government increased royalties on oil production from provincially-owned leases and, at the same time, increased the mineral tax on producing freehold properties. This tax was accounted for as an operating expense in 1973; however, because of further developments in 1974, it was concluded that these





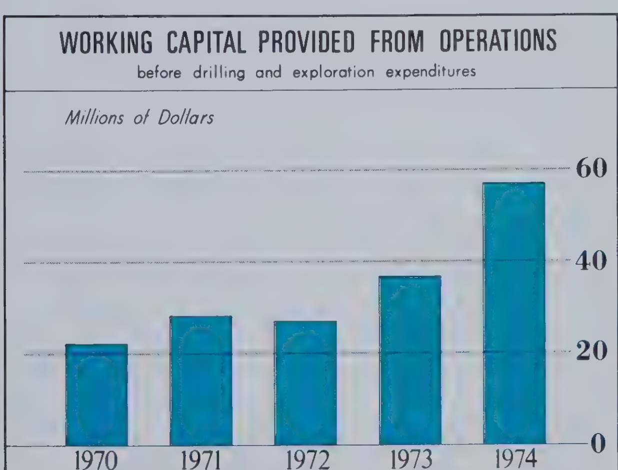
Expenditures Incurred Outside of Canada For Lease Acquisition, Exploration, Drilling and Capital Equipment

(Thousands of Dollars)

		1974	1973	1972
PETROLEUM				
United States*		$ 9,629	$ 7,845	$ 7,854
United Arab Emirates				
Abu Dhabi	1,402		1,431	—
Umm Al-Qaiwain	766		—	—
Ras Al-Khaima . .	185	2,353	—	—
Bangladesh		1,865	39	20
Philippines		1,502	628	103
United Kingdom . . .		1,425	698	468
New Zealand		559	—	—
Tunisia		497	388	4
Guatemala		366	—	—
Australia		180	314	516
Italy		101	103	13
Other		602	587	1,711
		19,079	12,033	10,689
MINERALS				
United States		402	132	166
Australia		218	156	180
Ireland		43	27	—
Philippines		20	—	—
Other		—	4	10
		683	319	356
		$ 19,762	$ 12,352	$ 11,045

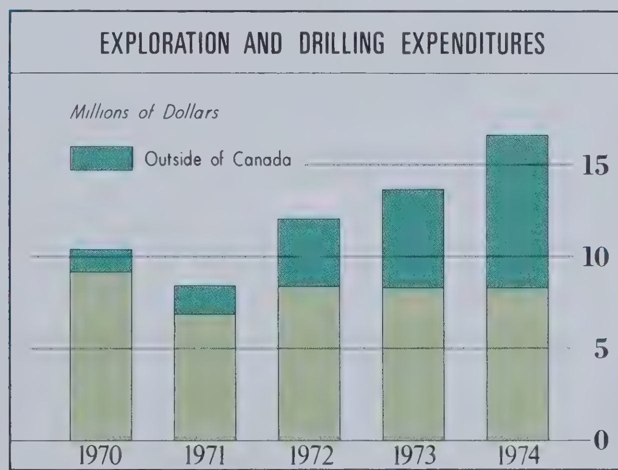
* *includes lease acquisition costs of $7.0 million in 1974, $5.4 million in 1973 and $6.0 million in 1972.*

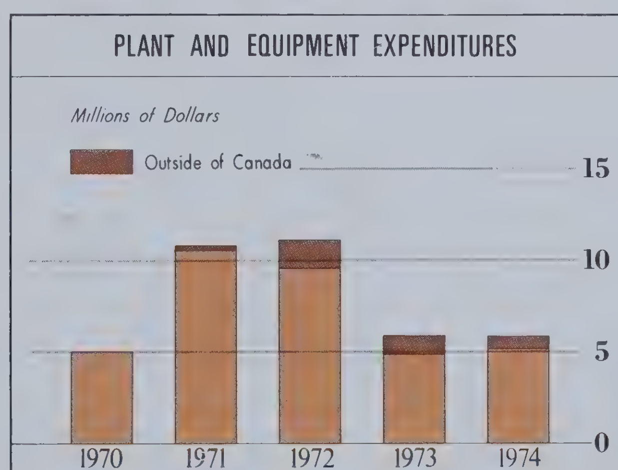
mineral taxes are analogous to increased Crown royalties and should be accounted for in a similar manner. Gross operating income for 1973 has therefore been decreased by $937,250 with a similar amount removed from operating expenses.



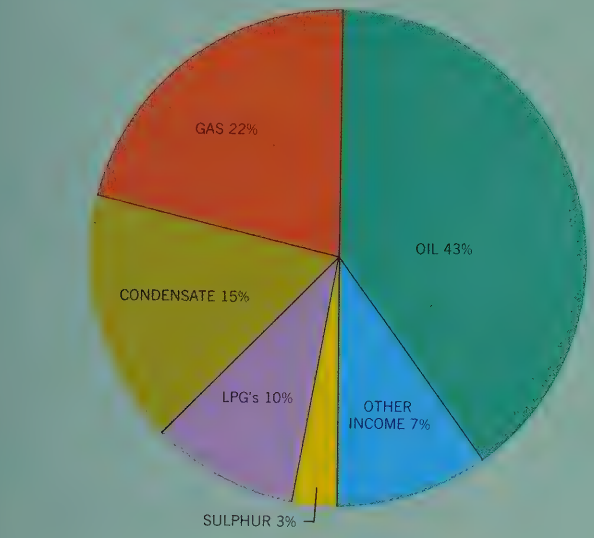
During 1974, the governments of all producing provinces in western Canada enacted legislation which increased their share of oil and gas revenues; either by higher royalties, special taxes, or other means. These payments to the provincial governments from resource companies reduced the income base for taxes payable to the Federal Government and this has resulted in a major dispute between the Federal and Provincial governments over resource revenue sharing.

The Federal Budget presented on November 18, 1974, proposed many amendments to The Income Tax Act affecting the natural resource industries. Some of these are to be retroactive to May 7, 1974. The most onerous provision provided that royalties, taxes, rentals and other payments made to provincial governments must now be included in income by the resource companies and would be subject to income tax. In December, 1974, the governments of Alberta and Saskatchewan announced proposals for tax rebates and royalty reductions designed to moderate this heavy burden of additional taxes. Our reported financial results have taken into consideration all of the above changes.

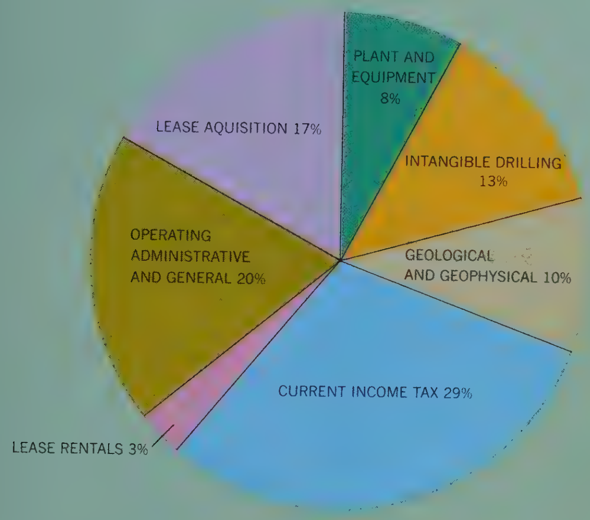




Revenues

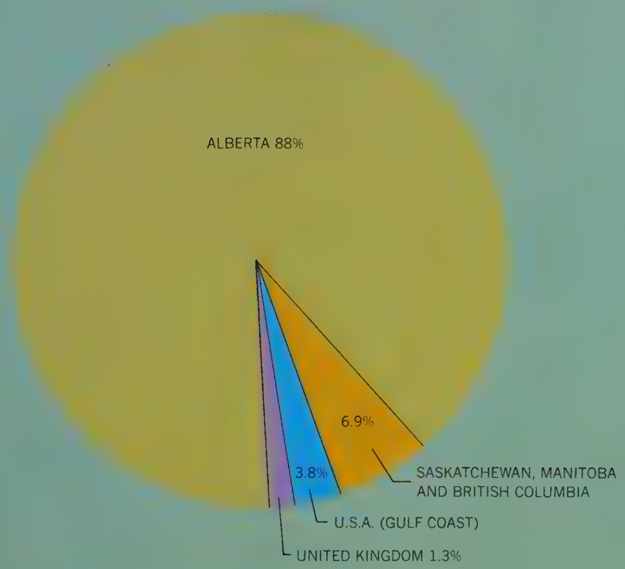


Expenditures



1974 Financial Statements

Geographical Source of Operating Revenue



Canadian Superior Oil Ltd.

Consolidated Statement of Income and Retained Earnings

For the Years Ended December 31, 1974 and 1973

	1974	1973 (Restated)
Income		
Operating income, less royalties and mineral taxes	**$ 87,479,268**	$59,266,796
Interest, dividends and other income	**6,938,691**	2,803,112
	94,417,959	62,069,908
Expenses		
Operating, administrative and general expenses	**14,377,368**	12,405,800
Rents of undeveloped properties	**2,092,465**	2,204,823
Exploration — geological and geophysical	**7,028,776**	5,405,769
Intangible drilling expenditures	**9,637,434**	8,282,009
Depreciation	**6,020,511**	5,979,364
Depletion	**894,414**	750,584
Leases abandoned	**3,866,868**	2,697,484
	43,917,836	37,725,833
Income Before Income Taxes	**50,500,123**	24,344,075
Provision for income taxes (Note 2)		
Current	**21,348,370**	11,060,062
Deferred	**(1,404,000)**	(2,854,000)
	19,944,370	8,206,062
Net Income	**30,555,753**	16,138,013
Retained Earnings at Beginning of Year as restated (Note 2)	**72,081,816**	55,943,803
Retained Earnings at End of Year	**$102,637,569**	$72,081,816
Average Shares Outstanding	**8,551,403**	8,533,331
Net Income Per Share based on average number of shares outstanding	**$3.57**	$1.89

Consolidated Statement of Changes in Financial Position

For the Years Ended December 31, 1974 and 1973

	1974	1973 (Restated)
Source of Working Capital		
Net income	$30,555,753	$16,138,013
Add charges to income not requiring the use of working capital including depreciation, depletion, amortization, leases abandoned and deferred income taxes	9,377,793	6,573,432
	39,933,546	22,711,445
Add drilling and exploration expenditures	16,666,210	13,687,778
Working capital provided from operations before drilling and exploration expenditures	56,599,756	36,399,223
Capital stock issued for cash (Note 4)	156,000	990,964
Prepaid gas revenue	—	1,526,090
Miscellaneous	474,710	282,892
	57,230,466	39,199,169
Use of Working Capital		
Capital expenditures		
Lease acquisition	12,497,363	7,579,429
Plant and equipment	5,774,506	5,839,338
Exploration — geological and geophysical	7,028,776	5,405,769
Intangible drilling costs	9,637,434	8,282,009
Total capital, drilling and exploration expenditures	34,938,079	27,106,545
Drilling deposit — Beaufort Sea	1,532,500	—
Investment in other companies	488,762	373,993
Decrease in prepaid gas revenue	187,367	10,030,022
Miscellaneous	241,140	26,753
	37,387,848	37,537,313
Increase in Working Capital	19,842,618	1,661,856
Working Capital at Beginning of Year	18,636,258	16,974,402
Working Capital at End of Year	$38,478,876	$18,636,258
Changes in Components of Working Capital		
Increase (decrease) in current assets		
Cash	$ (1,015,885)	$ 872,377
Short term investments	17,967,880	(3,328,052)
Accounts receivable	13,151,035	2,317,482
Inventories	4,007,400	305,306
Current portion of deferred receivable	—	(6,593,983)
Net increase (decrease) in current assets	34,110,430	(6,426,870)
Increase (decrease) in current liabilities		
Accounts payable	9,220,320	(7,017,301)
Income taxes payable	5,047,492	(1,071,425)
Net increase (decrease) in current liabilities	14,267,812	(8,088,726)
Increase in Working Capital	$19,842,618	$ 1,661,856

Canadian Superior Oil Ltd.

Consolidated Balance Sheet at December 31, 1974 and 1973

Assets

	1974	1973 (Restated)
Current Assets		
Cash	$ 716,912	$ 1,732,797
Short term investments, at cost	31,139,828	13,171,948
Accounts receivable	25,935,903	12,784,868
Inventories, at lower of cost or net realizable value		
Sulphur and liquid products	3,682,872	1,718,325
Materials and supplies	2,789,379	746,526
	64,264,894	30,154,464
Investments, at cost		
McIntyre Porcupine Mines Limited (quoted market value 1974 $2,562,344; 1973 $4,478,531)	9,005,499	9,005,499
Falconbridge Nickel Mines Limited (quoted market value 1974 $475,313; 1973 $1,213,875)	1,729,290	1,729,290
Other investments	4,014,294	3,881,788
	14,749,083	14,616,577
Properties, Plant and Equipment, at cost (Note 1)		
Undeveloped properties	44,080,067	38,378,754
Producing properties	25,725,927	22,796,744
Production equipment	37,675,244	35,906,197
Gas plants and related facilities	59,436,214	56,358,827
Other property and equipment	2,995,191	2,335,632
	169,912,643	155,776,154
Less: Accumulated depreciation and depletion	64,295,498	57,530,631
	105,617,145	98,245,523
Deferred Charges		
Prepaid lease rentals	924,470	987,550
Other	2,411,782	575,062
	3,336,252	1,562,612
	$187,967,374	$144,579,176

Liabilities

	1974	1973 (Restated)
Current Liabilities		
Accounts payable	$ 15,730,381	$ 6,510,061
Income taxes payable	10,055,637	5,008,145
	25,786,018	11,518,206
Prepaid Gas Revenue	2,484,972	2,672,339
Deferred Income Taxes (Note 2)	17,348,000	18,752,000
Shareholders' Equity		
Capital stock of $1 par value (Note 4)		
Authorized — 10,000,000 shares		
Issued and outstanding — 8,553,286 shares (1973 — 8,548,286)	8,553,286	8,548,286
Capital in excess of par value	31,157,529	31,006,529
Retained earnings, per accompanying statement	102,637,569	72,081,816
	142,348,384	111,636,631
Commitments and Contingent Liabilities (Note 3)		
	$187,967,374	$144,579,176

Approved on behalf of the Board

Director

Director

Notes to Consolidated Financial Statements

1. Accounting Policies

The consolidated financial statements include the accounts of Canadian Superior Oil Ltd. and its subsidiaries, all of which are wholly owned.

The cost of petroleum and natural gas interests are initially capitalized. Property costs are transferred from undeveloped to producing properties when production commences; costs of properties abandoned are charged against income when the properties are surrendered. Depletion of producing properties is provided by the unit of production method based on estimated recoverable reserves of oil and gas. Accumulated depletion as at December 31, 1974 amounted to $5,664,145 (1973 — $4,769,731).

Exploration expenditures and intangible drilling expenditures applicable to both producing wells and dry holes are charged to income as incurred.

Depreciation is provided by the diminishing balance method at the following rates:

Production equipment (including casing)	30%
Gas plants and related facilities	10%

The companies follow the allocation method of accounting for income taxes (see Note 2).

Foreign currency balances included in the consolidated financial statements have been expressed in Canadian dollars on the following basis:

Current assets and liabilities — at the rate of exchange at the year end

Other assets and liabilities — at historical rates of exchange

Income and expenses — at monthly rates of exchange except provisions for depreciation and amortization which are translated on the same basis as the related assets.

2. Income Tax

During 1974, the companies retroactively adopted the allocation method of accounting for income taxes. Under this method, provision is made for taxes deferred as a result of claiming capital cost allowances, oil and gas lease acquisition, exploration and drilling costs and other allowable expenses for tax purposes in differing amounts from those written off in the accounts. Previously, the companies had not followed the tax allocation basis of accounting for timing differences that related to drilling, exploration and lease acquisition costs. This change resulted in an increase in deferred income taxes at the beginning of 1974 of $12,500,000 (1973 — $16,300,000) and a corresponding decrease in retained earnings as set out below:

	1974	1973
Retained earnings at beginning of year		
As previously reported	$84,581,816	$72,243,803
Retroactive adjustment to report on the tax allocation basis of accounting	12,500,000	16,300,000
As restated	$72,081,816	$55,943,803

The 1973 financial statements have been restated to reflect this change and the effect for the years ended December 31, 1974 and 1973 was to increase net income by $2,331,000 (27¢ per share) and $3,800,000 (44¢ per share) respectively.

On November 18, 1974 the Canadian government introduced budgetary proposals to amend the Income Tax Act. These included a number of changes, several having retroactive effect to the date of an earlier budget on May 6, 1974, that will substantially increase the income taxes of the resource industries. The proposals, among other measures, deny the deduction of royalties and similar payments to governments and impose limitations on the deduction of certain development expenses and on depletion allowances. The effect of the foregoing is partially offset by a reduction in the federal rate of income tax applicable to resource production profits. In addition, the provinces of Alberta and Saskatchewan have subsequently announced proposals for tax rebates and certain other credits to provide some measure of relief from the additional federal tax levies. Although the federal and provincial legislative amendments have not yet been enacted, the 1974 income tax provision has been computed on the basis of taking them into account on the best information available.

3. Commitments and Contingent Liabilities

The company has a lease on office premises which expires in 1990 (with an option to renew). Under the terms of the lease, the company is required to pay an annual net rental of $577,000.

The company might be required under certain conditions to make payments under guarantee and other contractual arrangements principally in connection with:

(a) pipe line transportation, and

(b) The issuing to and depositing with the federal and provincial governments of non-interest bearing demand promissory notes to be held as work performance deposits in respect of exploratory rights.

The contingent liability under such arrangements does not exceed $8,000,000 (1973 — $5,000,000).

4. Stock Options

Under the company's stock option plan, options have been granted to certain officers and key employees of the company and its subsidiaries at prices ranging from $20.70 to $31.20 which prices were not lower than 90% of the market value on the business day prior to the date of grant, including options on 45,000 shares at $20.70 granted in 1974, subject to approval of the shareholders and the submission for cancellation of options previously granted on 27,800 shares.

During 1974 options on 5,000 shares were exercised for a cash consideration of $156,000. The excess of the issue price over the par value of shares issued has been credited to capital in excess of par value. As at December 31, 1974, subject to approval of the shareholders and the submission for cancellation of options previously granted, options on 46,530 shares (of which 39,500 were granted to directors and officers) were outstanding and 51,700 were available for future grants. The outstanding options expire in 1984 except for options on 1,530 shares which expire in 1979.

5. Statutory Information

During 1974 there were ten directors and ten officers (as defined by the Canada Corporations Act) of whom six were also directors.

Officers' remuneration for 1974 amounted to $686,515 (1973 — $485,184), none of which was paid by subsidiary companies. There were no directors' fees paid in 1974 (1973 — $1,000).

Auditors' Report

To the Shareholders of
CANADIAN SUPERIOR OIL LTD.

We have examined the consolidated balance sheet of Canadian Superior Oil Ltd. and its subsidiaries as at December 31, 1973 and 1974 and the consolidated statements of income and retained earnings and changes in financial position for the two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and 1974 and the results of their operations and changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles consistently applied, after giving retroactive effect to the change in accounting for income taxes described in Note 2 to the financial statements.

CALGARY, Alberta.
February 14, 1975

PRICE WATERHOUSE & CO.
Chartered Accountants

Five Year Summary

INCOME AND RETAINED EARNINGS*

	1974	1973	1972	1971	1970
Income					
Gross operating income	**$ 87,479,268**	$59,266,796	$44,563,118	$40,242,662	$36,547,265
Interest, dividends and other income	**6,938,691**	2,803,112	1,833,942	1,816,188	1,456,334
	94,417,959	62,069,908	46,397,060	42,058,850	38,003,599
Expenses					
Operating, administrative and general	**14,377,368**	12,405,800	10,862,410	11,749,705	10,014,126
Interest on long term debt	—	—	—	48,355	244,971
Rents of undeveloped leases	**2,092,465**	2,204,823	2,224,570	2,297,643	2,097,776
Exploration expenses	**7,028,776**	5,405,769	4,430,172	5,051,583	4,829,144
Intangible drilling expenditures	**9,637,434**	8,282,009	7,677,867	3,360,999	5,568,344
Leases abandoned	**3,866,868**	2,697,484	1,092,874	783,595	537,838
Provision for depreciation, depletion and amortization	**6,914,925**	6,729,948	6,397,390	8,696,146	8,709,010
	43,917,836	37,725,833	32,685,283	31,988,026	32,001,209
Income before income taxes	**50,500,123**	24,344,075	13,711,777	10,070,824	6,002,390
Provision for income taxes					
Current	**21,348,370**	11,060,062	6,315,174	(263,952)	2,769,787
Deferred	**(1,404,000)**	(2,854,000)	(1,022,000)	4,251,000	139,000
	19,944,370	8,206,062	5,293,174	3,987,048	2,908,787
Income before extraordinary item	**30,555,753**	16,138,013	8,418,603	6,083,776	3,093,603
Extraordinary item					
Net profit on sale of securities	—	—	—	—	807,462
Net income	**30,555,753**	16,138,013	8,418,603	6,083,776	3,901,065
Retained earnings at beginning of year	**72,081,816**	55,943,803	47,525,200	41,441,424	37,540,359
Retained earnings at end of year	**$102,637,569**	$72,081,816	$55,943,803	$47,525,200	$41,441,424
Average shares outstanding	**8,551,403**	8,533,331	8,507,302	8,503,001	8,501,516
Net income per share based on average number of shares outstanding	**$3.57**	$1.89	$0.99	$0.72	$0.46

* *Prior years restated for the retroactive adoption of tax allocation accounting.*

Management's Discussion and Analysis of the Summary of Income

Five Year Summary

Operating Income

Gross operating income increased over each of the preceding years by $3,695,397 in 1971, $4,320,456 in 1972, $14,703,678 in 1973, and $28,212,472 in 1974. This represents a rate of growth of 21.8% compounded annually over the five year period and is a result of increased sales volumes due to new plants coming on stream and higher average selling prices, partially offset by higher royalties to provincial governments.

Between 1970 and 1973 production of crude oil increased an average of 7% per year but declined 5% in 1974 to 26,929 barrels per day from 28,390 barrels per day in 1973 due partly to export volume cutbacks. Increased prices, however, resulted in a gain in revenue from crude oil of $10,339,868 for 1974. Sales of natural gas have increased from 176 million cubic feet per day in 1972 to 221 million cubic feet per day in 1973 and to 231 million cubic feet per day in 1974 as a result of initial sales from several Alberta plants and development of producing properties in the United States and United Kingdom. Higher production rates, combined with higher prices for newly discovered natural gas and price renegotiation with purchasers, have increased revenues from natural gas sales to $20,823,279 in 1974 from $14,804,020 and $10,131,660 in 1973 and 1972 respectively. Higher prices also resulted in significant increases in the revenue derived from propane, butane and sulphur in 1974.

Other Income

Profit on products purchased for resale increased by $2,727,582 in 1974 because of rapidly escalating prices. A high level of cash resources and strong interest rates increased interest earned on short-term investments from $1,105,990 in 1973 to $2,358,156 in 1974.

Expenses

Operating, administrative, and general expenses increased $1,543,390 (14%) in 1973 and $1,971,568 (16%) in 1974 compared to the corresponding prior periods primarily reflecting the effects of inflation and higher production volumes. Operating costs in 1971 reflect an adjustment of $1,344,654 charged against income in that year when it was decided, due to a continuing world-wide decline in sulphur prices, to write off excess costs previously carried in sulphur inventory.

Exploration expenses and intangible drilling expenses are charged against income as incurred. Significant increases in these costs during 1973 and 1974 reflect both an inflationary impact and an increased level of activity.

The costs of undeveloped properties are charged against income when the leases expire or the properties are abandoned. This amount may vary considerably, depending upon original acquisition costs.

Exploration and preproduction expenditures incurred prior to August 31, 1958 were amortized on a unit of production basis. These expenditures were fully amortized by 1971 and a significant portion of the decrease in the provision for depreciation, depletion and amortization in 1972 compared to the prior year is a result of the completion of this amortization.

The provision for income taxes is a direct function of the net income of the company and has risen correspondingly with increases in net income. The drawdown in deferred income taxes in 1972, 1973 and 1974 occurs primarily because of the company charging certain expenses, principally foreign exploration and development costs, against income before they are allowable deductions for tax purposes. For a more complete explanation of income taxes refer to Note 2 of the Notes to Consolidated Financial Statements.

Five Year Summary

OTHER FINANCIAL DATA	**1974**	1973	1972	1971	1970
Working capital provided from operations — *before drilling and exploration expenditures*	**$56,599,756**	$36,399,223	$26,994,906	$28,244,783	$22,876,939
Per share	**$6.62**	$4.27	$3.17	$3.32	$2.69
Working capital at year end	**$38,478,876**	$18,636,258	$16,974,402	$15,761,493	$17,770,050
Expenditures					
Oil and gas properties	**$12,497,363**	$ 7,579,429	$ 7,444,853	$ 2,447,460	$ 6,137,602
Plant and equipment	**5,774,506**	5,839,338	11,074,081	10,670,311	5,012,712
Intangible drilling	**9,637,434**	8,282,009	7,677,867	3,360,999	5,568,344
Exploration — Geological and geophysical	**7,028,776**	5,405,769	4,430,172	5,051,583	4,829,144
	$34,938,079	$27,106,545	$30,626,973	$21,530,353	$21,547,802
Expenditures incurred outside of Canada included above	**$19,762,887**	$12,352,468	$11,044,768	$ 2,051,055	$ 4,869,948

Sales price of common stock (per share) — **Principal market: Toronto Stock Exchange.**

		1974	1973	1972	1971	1970
First quarter	— high	**$60**	$58¾	$45⅝	$40½	$40¼
	— low	**54½**	50¼	40	36⅛	29¾
Second quarter	— high	**56**	54½	46½	46	32⅝
	— low	**36½**	40½	39⅛	38½	17½
Third quarter	— high	**41⅞**	57¾	51⅜	45¾	36⅜
	— low	**26½**	47¾	45	41½	22½
Fourth quarter	— high	**33¾**	60⅜	58	44½	39⅞
	— low	**19½**	54	49½	35¾	34⅜

The company's shares are also traded on the American Stock Exchange and the Pacific Stock Exchange.

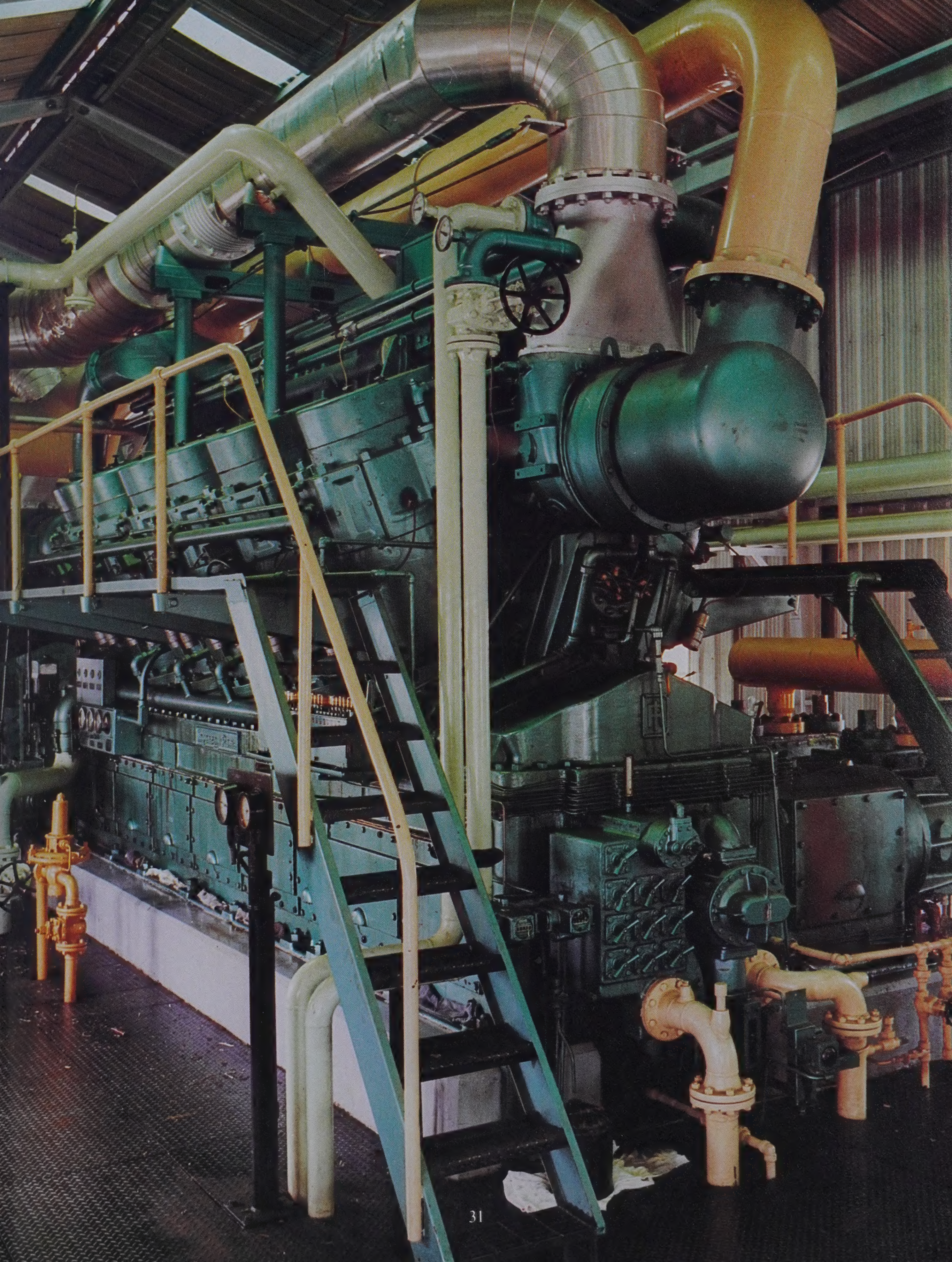
Dividends — no dividends have been paid to date.

	1974	1973	1972	1971	1970
Number of shareholders of record	**6,609**	6,903	7,629	8,392	9,277

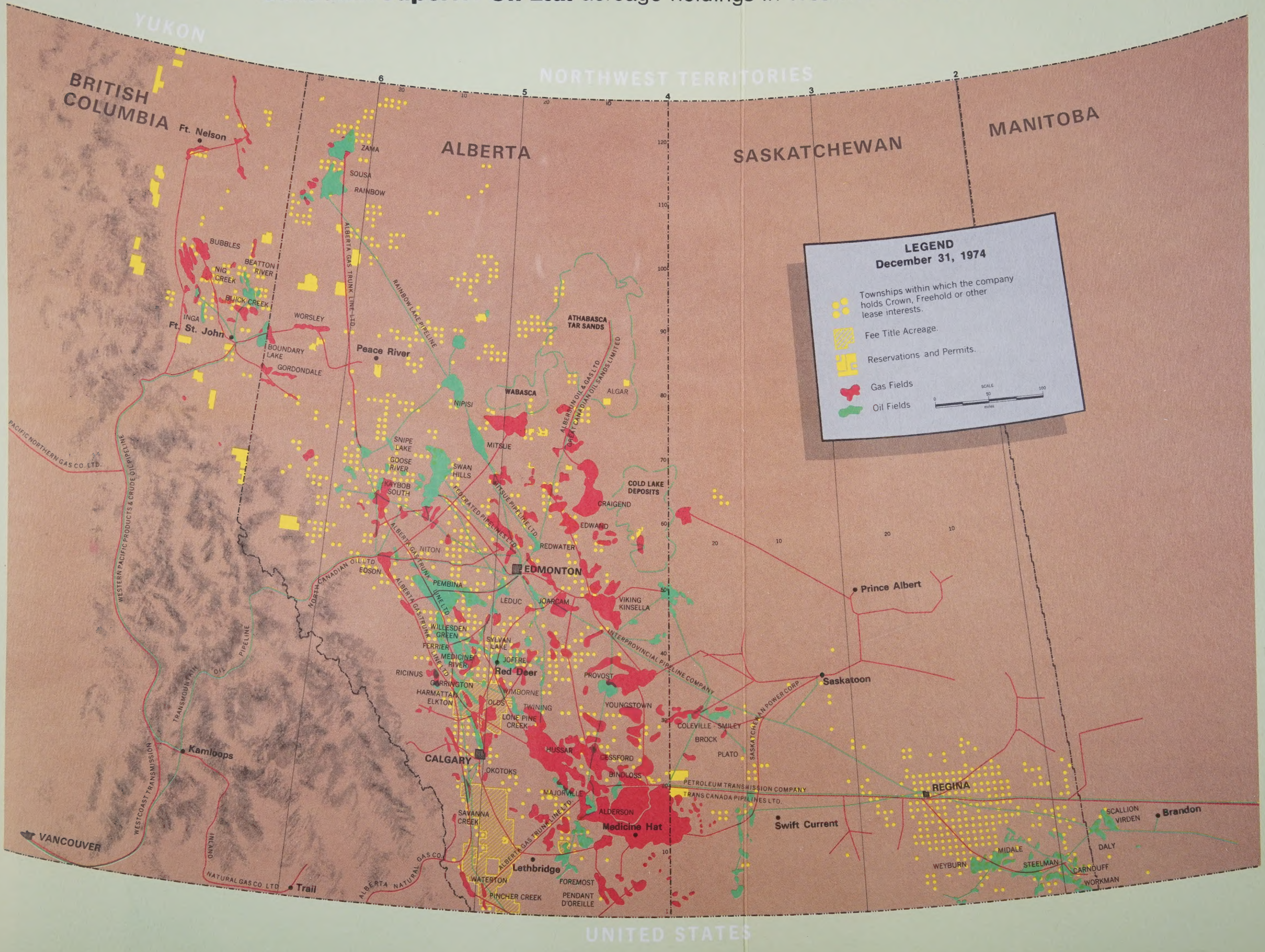
OPERATING DATA

Wells drilled and completed	1974 Gross	1974 Net	1973 Gross	1973 Net	1972 Gross	1972 Net	1971 Gross	1971 Net	1970 Gross	1970 Net
Exploratory										
Productive	**45**	**11.3**	21	6	24	7	21	4	29	11
Abandoned	**80**	**17.2**	66	14	78	29	65	17	71	15
Development										
Productive	**84**	**15.1**	71	13	40	7	25	4	60	10
Abandoned	**14**	**1.2**	13	2	8	1	12	—	16	4
	223	**44.8**	171	35	150	44	123	25	176	40

Gross daily sales:	**1974**	1973	1972	1971	1970
Crude oil (Bbls.)	**26,929**	28,390	26,134	24,508	23,067
Condensate (Bbls.)	**7,536**	7,755	8,067	7,219	7,070
Propane and butane (Bbls.)	**5,892**	4,692	5,218	4,772	4,330
Total oil and gas liquids (Bbls.)	**40,357**	40,837	39,419	36,499	34,467
Residue gas (Mcf)	**230,944**	221,365	175,836	158,111	150,975
Sulphur (Long tons)	**639**	622	522	463	658
Number of Employees	**413**	397	386	384	368



Canadian Superior Oil Ltd. acreage holdings in Western Provinces



Map showing

acreage holdings

of **Canadian Superior Oil Ltd.**

1974

SMITH GRANT MANN ALBERTA
Litho'd in Canada